BY JUDY PARADI AND PAULETTE FILION

Balancing Act

How to bridge the logic–emotion gap with client expectations

Clients have high expectations when it comes to their money. They want big returns with little or no risk, and they have no problem contradicting themselves or second-guessing you.

Take the case of Bob. As a conscientious advisor, he spent quite a bit of time working with a husband and wife who had just retired. He really wanted to understand their retirement goals so he could develop a plan that would best meet their needs.

Since they had indicated that a steady income was a priority, Bob recommended setting aside at least three years' worth of income and investing in a laddered GIC. Even though the yields were low, the couple had agreed with this approach. But much to Bob's surprise, when he met with them to present the detailed plan, the husband had a sudden change of heart; he wanted to invest far more aggressively.

So what happened here? The short answer is, clients are exasperatingly human. Emotions frequently supersede logic in the case of financial matters. While this is frustrating, it's unrealistic to expect clients to forgo their emotions.

Here's an interesting sidebar. While men maintain they make decisions based on facts, not emotions, many studies prove otherwise. In one study conducted by Francesco D'Acunto, a professor and finance researcher at the University of California-Berkeley, they found that when the men in the study felt powerful and in control, they became overconfident and took on more risk. Turns out that men exhibited markedly higher levels of risk taking because of how they felt. The lesson here is even when clients think they are not being influenced by emotions, they are.

Now, back to Bob's clients. Any number of factors could have influenced the sudden about-face. Whatever the reason, the successful advisor has to learn to manage both the logic and emotion of clients.

This may not be so easy for advisors who have been trained in an industry that promotes the logical approach to investing based on fundamental principles. This especially holds true in volatile markets, a time when the client is least likely to be logical and most likely to respond emotionally.

Our industry has tried to virtually purge the word emotion out of its vocabulary. Advisors are urged to "invest without emotion," and they in turn urge their clients to do the same. They quote axioms like, "When emotions are high, intelligence is low" to their clients. But this type of reasoning does more harm than good. It precludes the idea that anyone investing for emotional or altruistic reasons is being reasonable, when in fact advisors need to accept that emotions are part and parcel of investing, especially when dealing with individual clients.

So how does an advisor bridge the gap between logic and emotion?

- **Rethink** how you approach clients. If you approach the relationship on a more "human" (less logical) level, you are more likely to build trust and can better respond when a client lets their emotions get the better of them.

- **Have a plan** that considers both logic and emotions by exploring and understanding how each client responds. It is a given that emotions are likely to run higher in volatile markets. Try to remember how they responded when the markets were down? Did they sell? Buy more? Do nothing?

- **Use the plan** you have developed and discussed with your client. Refer to it regularly and remind them that this is a roadmap created by and for them, but make it clear that it is not carved in stone.

Your women clients can help you balance logic and emotion. While they are not impervious to making emotional decisions, they are more likely to stay the course, and less likely to second-guess you. With Bob's clients, the wife, in this case, may be his best ally when it comes to knowing the emotional triggers that influence her husband.

Also consider adding these steps to your arsenal.

WHAT'S THE REAL RISK TOLERANCE?

Typically, risk tolerance is higher for everyone when markets are going up and people feel optimistic. But, according to Wells Fargo's 2014 *Financial Health Study*, men overestimate their risk tolerance and women underestimate theirs. Knowing the risk tolerances of both people in the relationship will help you understand the possible range that you have to manage within.

GET HELP SUPPORTING THE PLAN.

If you engage the wife in the plan, the more she understands the financial strategy. She can be helpful in championing the plan when times get rough or the neighbour offers up a new stock tip.

LISTEN TO THE WIFE.

Applying logic to financial recommendations is fine and probably the "right" thing to do, but recognize that there may be other factors at play in your client's life and the wife is more likely to share their personal stories with you.

In the end, being a great advisor isn't just about being right. It's about understanding your clients and the emotions that motivate them. F

JUDY PARADI and PAULETTE FILION are partners at StrategyMarketing.ca, a Toronto-based consultancy. They can be reached at pfilion@strategymarketing.ca or jparadi@strategymarketing.ca.